

SPOKANE COUNTY, WASHINGTON
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. The County's Annual Financial Statements Should Be Filed On A Timely Basis

The county submitted its annual financial report to the Washington State Auditor's Office on October 14, 1993. The report was due May 30, 1993.

RCW 43.09.230 Division of municipal corporations) Annual reports) Comparative statistics states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year . . .

Their substance shall be published in an annual volume of comparative statistics at the expense of the state as a public document.

When financial reports are not filed on time, users of these reports are denied access to the county's financial information. Such users include:

- a. The taxpayers within the county.
- b. The State Legislature, which receives a copy of the annual volume of comparative statistics for all municipalities, published pursuant to RCW 43.09.230 by the Office of State Auditor.
- c. Federal and state grantor agencies.
- d. Bondholders, bond brokerage firms, and other persons interested in the county's financial affairs.
- e. County officials who need this information for effective planning and management of county resources.

Late reports result in increased audit costs. Additionally, because the United States Congress has required granting agencies to impose sanctions against those recipients of federal assistance who do not comply with federal audit requirements, future federal assistance could be threatened.

The county's management contends the auditor's staff was unable to prepare the annual report within the deadline specified by the State Auditor because of staff reductions

resulting from budget reductions of nearly 16 percent in 1992 and nearly 6 percent in 1993. The county's nonintegrated accounting system contributed to late reporting because of the many manual adjustments required to transfer financial information from noncompatible accounting systems in use.

We recommend the county take the following actions to improve the timeliness of its financial reports:

- Provide sufficient resources to prepare the annual report on time.
- Purchase compatible accounting systems whenever possible.

2. The County Should Adopt A Comprehensive Security Administration Policy For Its Computerized Accounting System

During our audit of the county's computer systems, we found the following weaknesses in security over access to the systems:

- Improper segregation of functions between the electronic data processing (EDP) department and computer system users.
- Few to no activated access control functions within applications.

The State Auditor's Office, *General Controls and Application Controls for Computer Systems*, Bulletin 003, states:

There should be a segregation of functions between the EDP department and the users. The EDP department should be organizationally independent of the governmental units using their services. In addition, the EDP department should only control data to be processed.

Access to program documentation should be limited to those persons requiring it in the performance of their duties. Program documentation contains information necessary to make changes to programs, data file structures, programmed control criteria, and other elements of applications. As such, it should be subjected to restricted access.

Access to data files and programs should be limited to those authorized to process or maintain particular systems. This control could be implemented through a "library" function applied to both data and program files. The library function can be carried out through the use of library personnel as well as librarian software systems.

The EDP Auditor's *Foundations, Control Objectives*, Section 3.4.1, states:

Access to the computing resources of the Systems Services Department should be limited to those individuals with a documented and authorized need for such access. Layers of logical and physical access controls should be provided to protect the department's computing resources against unauthorized use or modification, damage, or loss.

Weak controls increase the opportunity for unauthorized modifications to files and programs, as well as misuse of the computer hardware, significantly decreasing the integrity of the system.

The county's security administration policy and procedures for its main frame EDP systems are not adequate. The policy does not adequately detail user access privileges, user access responsibilities, and security violation investigation procedures. Without a proper security policy in place, it is unlikely that any security that is applied will be sufficient to ensure only authorized transactions are entered into the system.

We recommend the county write, publish, and enforce a comprehensive security administration policy for its main frame EDP systems. Procedures should then be written consistent with the policy. These procedures should detail user access privileges, user access responsibilities, routine changing of passwords, and security violation investigation procedures.

We further recommend that responsibility for assuring both the logical and physical security of the organization's information assets be assigned to an information security manager who reports to senior management. The security manager's duties should exclude programming, operating computer hardware, and data entry.

We additionally recommend the county designate an EDP librarian who would document and control access to EDP libraries. Duties would include establishing new users on the system, removing employees upon notification of transfer or termination, and establishing controls over user passwords.

3. Systems Services Department's Program Development, Acquisition And Implementation Controls Should Be Improved

The design and implementation of new application systems were completed without adequate application and accounting controls.

During 1992, the county's Systems Services Department implemented a system development life cycle (SDLC) methodology utilizing a computer program called Micro-Man II. However, the department did not consistently use this methodology during the recent installation of two major applications: Government Human Resource System (GHRIS) and Extended Purchasing System (EPS). The following matters were noted during the audit:

- System services did not perform feasibility studies.
- Formal system documentation was not retained.
- A quality assurance function was not being performed.
- The internal audit department was not involved in the review of application controls.
- There is no documentation of the following:
 - (1) Reviews throughout the project as each step of the installation was performed,
 - (2) Deviations from procedures, and
 - (3) Testing of systems, test results, and user approval of tests.
- No SDLC management committee has been established.

The process followed by an organization in the development, acquisition, and maintenance of information systems should attempt to achieve system effectiveness, economy and efficiency, data integrity, resource safeguarding, and compliance with laws and regulations. The use of an effective SDLC methodology should provide the county's senior management with reasonable assurance that these objectives will be achieved.

Weak or nonexistent controls in the SDLC methodology increases the likelihood that systems are not designed according to user needs or are not properly implemented; that system and program modifications are implemented incorrectly; and that programs may be subjected to unauthorized modifications. Inadequate attention to the SDLC methodology in the creation of a system can result in excessive maintenance costs after installation, especially if it is necessary to put controls in after the application is already in production.

System services failed to follow its SDLC methodology because senior county managers failed to ensure that proper controls were developed as part of the software installation project.

We recommend the county's Systems Services department perform established roles and responsibilities in planning, developing, reviewing, implementing, and auditing the end product of the system development process. User authorizations should be obtained

throughout each phase. Testing and supporting documentation should be retained.

We also recommend Systems Services establish a quality assurance group whose only responsibility would be the performance of quality assurance functions. The group should have a written charter approved by senior management.

4. Separation Of Duties Between Payroll, Human Resources, And Data Processing; Access Controls; And Payroll System Documentation Should Be Improved

Inappropriate separation of duties exist between the payroll, human resources, and data processing functions. Payroll performs functions that, if not performed, should be reviewed by human resources. Payroll and human resources are not properly authorizing users for access privileges. In addition, payroll and human resources do not have written policies and procedures. The data processing department has access to the payroll and human resources system beyond that necessary to perform their job.

The county's payroll department is part of the county auditor's financial services department. It has full capability to add, delete and change employee information, perform payroll processing functions and distribute the payroll checks. The county's human resources department is organizationally responsible to the board of county commissioners. It does not complete an independent review of payroll activity.

Payroll and human resources are not keeping their access rosters current. We found two individuals with active user codes and passwords who no longer perform those functions. One individual resigned from the county in July 1992. The other individual transferred to a different department in December 1992.

Data processing programmers have full access capabilities including approval and override privileges to the payroll application. This access gives programmers the capability to manipulate data without providing an audit trail. Programmers do not require access to the payroll application to perform their job functions.

Payroll and human resources responsibilities are not adequately documented. The county does not have written policies or procedures in the following areas:

- Preparation of data (timekeeping, data entry, personnel action forms).
- Securing and controlling negotiable source documents.
- Identification, correction, and resubmission of rejected data.
- Balancing and reconciliation of output.

The AICPA's *Professional Standards*, Volume A, in Section 320.37 states:

Incompatible functions for accounting control purposes are those that place any person in a position to both perpetrate and conceal errors or irregularities in the normal course of their duties.

Access controls are designed to limit access to documentation, files, and programs. A weakness in, or lack of, such controls increases the opportunity for unauthorized modifications to files and programs.

The lack of written policies and procedures detracts from accountability. Incomplete documentation inhibits the complete understanding of the system's functions, making employee training as well as system modification more difficult.

We note that the county has activated a position authorization feature of its payroll/human resources application. This serves as an alternative control that limits the extent of errors or irregularities that may occur. However, it does not prevent errors or irregularities in

certain situations, e.g., part-time employees and unfilled authorized positions.

The combined effect of inappropriate separation of duties, noncurrent user access rosters, and inadequate written policies and procedures increase the risk that errors or irregularities could occur during the normal course of business and not be detected in a timely manner.

The county purchased the Government Human Resources System (GHRS) because the vendor was no longer going to support the old payroll system. There was no feasibility study or planning. The county bought GHRS and put it on line. There was no attempt to rethink how the payroll and human resources departments should perform the payroll function. And, senior management gave little priority to writing policies and procedures.

We recommend the county take the following actions:

Establish appropriate separation of duties between the payroll, human resources, and data processing departments as stated below:

- Ensure that the payroll department acts independently of the financial accounting function, i.e., the payroll department should be limited to processing payroll.
- Human resources should perform the function of adding, deleting, and completing employee changes to the employee master file. If this is not possible, then the Accepted Transaction Listing should be verified to source documents by an independent individual, preferably someone in the human resources department. This is the only audit trail available to account for all transaction activity within the payroll/human resources application.
- Systems Service staff access should be limited to privileges necessary to perform job functions. Programmers should not have access to the production files and data files.

The county needs to implement policies and procedures to ensure that access to the payroll/human resources application is restricted to individuals whose job functions require it.

The county payroll and human resources departments should establish written security policy and procedures for the payroll/human resources application. These procedures should detail user access privileges, user access responsibilities, routine changing of passwords, and security violation investigation procedures. Users to the system should be authorized, approved, and routinely reviewed by the payroll/human resources departments. Adequate supporting documentation should be retained.

The county payroll and human resources departments should develop written policies and procedures for maintaining and reporting payroll and personnel transactions in the following areas:

- The preparation of data (timekeeping, data entry, personnel action forms).
- Securing and controlling negotiable source documents.
- Identification, correction, and resubmission of rejected data.
- Balancing and reconciliation of output.

5. The County Assessor And County Treasurer Need To Strengthen Controls Over Change Requests Generated By The Assessor

As stated in our reports for 1991 and 1990, we noted that control of change requests, used to update the county's property tax roles, is weak. Specific continuing problems we observed during the current audit include:

- There is no supervisory review or approval of change requests initiated in the assessor's office.
- The assessor does not deliver change requests to the treasurer's office, who is responsible for modification of the roles, and ultimate collection of the tax.
- There is no control log of the change requests initiated or processed.
- The treasurer does not inform the assessor when a change request is processed nor is there control to verify that the information entered into the computerized tax system agrees with the change requests

Because of the weaknesses noted above, it is possible for mistakes to occur and go undetected. Such mistakes could result in loss of income to the county as well as hardship and inconvenience to property owners.

In our reports for 1991 and 1990, we stated that the weaknesses resulted from departmental isolationism that inhibited effective intraorganizational communications and controls. We further noted that interdepartmental communications were disrupted by major computer software conversions in both the assessor's and treasurer's offices. These circumstances continued to exist during 1992.

In our report for 1991, we stated that both the assessor and treasurer were aggressive in correcting problems in their individual departments as such were identified. We also stated that representatives from both departments have met on numerous occasions to seek solutions as problems are mutually defined. We are pleased to note that representatives of both departments are still meeting from time to time. A representative from the county's Systems Services Department has been assigned to work with both departments. Progress is currently held up pending development of control requirements within the assessor's office. Because a final solution has not yet been achieved, these internal control weaknesses still exist.

We again recommend that controls over the change requests be strengthened to mitigate the weaknesses noted above.

SPOKANE COUNTY, WASHINGTON
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Schedule Of Federal Findings

1. The County Should Be Accountable For All Expenditures Claimed For Federal Reimbursement

Public Works, which is responsible for managing the Well Head Protection grant (CFDA 66.433), claimed payroll and other costs that were not adequately supported as required by OMB Circular A-87.

We found two instances where accounting records failed to support payroll and other costs charged to the grant. In one department, an employee chargeable to more than one cost objective did not keep appropriate time distribution records. Public Works claimed \$30,000 in payroll costs for this employee. In another department, accounting records for three employees working on the grant showed \$23,428 spent for salaries and benefits; however, materials and services that were purchased for this department were not segregated in the accounting records for that portion earmarked as grant expense. Public Works claimed \$45,000 for costs charged in this department, of which, \$21,572 was unsupported by the accounting records.

OMB Circular A-87, Section 10b, states:

. . . Payrolls must be supported by time and attendance records or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

CFR Part 80) *Uniform Administrative Requirements For Grants And Cooperative Agreements To State And Local Governments*, Subpart C, 80.20(2) states in part:

Accounting Records. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Because of circumstances described above, a portion of payroll costs charged to the grant are not allowable. We question the charge of \$30,000 in its entirety. We also question \$21,572 (\$45,000 less \$23,428) because certain materials and services were not identified in the accounting records as grant expense. Questioned costs total \$51,572 in unallowable costs.

This condition was caused in part by failure of Public Works to ensure that employees working on more than one cost objective maintain appropriate time distribution records. It was also caused, in part, by charging budgeted costs for the work rather than the actual costs incurred.

We recommend Public Works ensure that employees performing grant related tasks comply with federal cost principles. We further recommend Public Works adjust future claims for reimbursement to the Environmental Protection Agency to compensate for the questioned costs.

2. The Department Of Community Development Should Ensure That Federal Block Grant Expenditures For Public Services Do Not Exceed Limits

The county spent more federal Community Development Block Grant (CDBG) on public services than allowed. Expenditures exceeded the allowable amount by \$8,195 and \$27,432 in 1992 and 1991, respectively. The overexpenditures were detected by Department of Housing and Urban Development (HUD) examiners during a review of the county's annual performance report.

Under "Types of Services Allowed or Unallowed," the compliance supplement for CFDA 14.218, Community Development Block Grants, contained in the Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments*, revised September 1990, states in part:

The amount of CDBG funds used for public services shall not exceed 15% of each grant.

The county must underspend future grant funds on public services to compensate for these prior year overexpenditures. HUD has agreed to the county's proposal to reduce public service expenditures over a three-year period beginning in 1993. Because HUD has taken action to recover the overexpenditures, these amounts are not be included in the Schedule of Questioned Costs which accompanies this report.

The Community Development Office misinterpreted the rules regarding the public services limit on expenditures. Managers believed that unexpended prior year funding could be carried forward to future years.

We recommend the Department of Community Development strengthen its grant management procedures and initiate controls to assure compliance with expenditure limits imposed by HUD.